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British companies plan by hunch

Some British businessmen are re-discovering the supposed virtues of long-term planning just as their competitors and many American management consultants are dismissing it as a vice. Are they right to defy the fashion?

Mr David Sainsbury, the finance director of J. Sainsbury, the successful British retailer, believes that British companies have lost out to American, Japanese and West German competitors because they cannot plan ahead. A charitable trust set up by Mr Sainsbury to sponsor industrial research put up £1¼m last year to open a centre for business strategy at the London Business School.

The chairman of the centre is Mr Dean Berry, who has taught at the Harvard and Yale business schools and is a former dean of Insead in Paris. He says it is "staggering" how little planning is done by British companies. In contrast to their American counterparts, who have sometimes made a fetish of planning, British chief executives, he says, believe that they know where their company is heading. But in fact, their planning amounts to no more than "an extended budgetary exercise". Mr Berry also feels that too many British companies have managers who have spent their whole working lives in a single company or industry and have a wholly unscientific outlook.

Some bosses agree in part. Mr John Harvey-Jones, the chairman of Imperial Chemical Industries (ICI), one of Britain's biggest industrial companies, admitted in an interview in The Director this month that "one of ICI's problems is that, by and large, most of us have spent all our lives inside ICI. We have little concept of how other companies run themselves in practice".

Even so, ICI has drawn the opposite conclusions to Mr Sainsbury about strategic planning. In contrast to many British firms, which shunned the corporate strategies sold by American management consultants, ICI adopted some of the ideas of the Boston Consulting Group over 10 years ago. The gist of the Boston Group's doctrine on corporate planning was that companies did better the bigger their share of their own markets. As sales went up, the company's experience of the business would increase in tandem with economies of scale, and costs would fall.

ICI says that these ideas helped it to look at its disparate businesses in a logical way. But oil prices, exchange rates and economic growth were stable then. Demand for chemicals had risen on average by 8% a year for 30 years, and ICI built up its capacity as demand increased. After 1973, oil prices shot up, only to drop again in the early 1980s. Average annual growth in demand for chemicals has sunk to 3%, while exchange and interest rates lurch around.

The head of corporate planning at ICI, Mr Kaya Napstrek, says that strategic planning techniques "are of limited benefit in an uncertain world. They are rigid. They are no good for the 1980s".

Other large companies are trying to increase their room for manoeuvre by cutting their debt and selling businesses bought in the 1970s when diversification was seen as insurance against recession. Efficiency, the development and quality of products, marketing and the search for small, profitable corners of markets are now a higher priority than predicting how companies will grow in future. In many big firms, planners have been relegated to the humbler task of making a series of educated guesses about what companies should expect to happen.

These "scenarios", says Mr Guy de Wouters, director of strategic planning for Shell International, assume that the future is unpredictable. Shell should know, because it made two big mistakes by assuming that it could reliably forecast energy demand. It invested in nuclear energy in a disastrous venture with Gulf Oil, and built far too many supertankers.

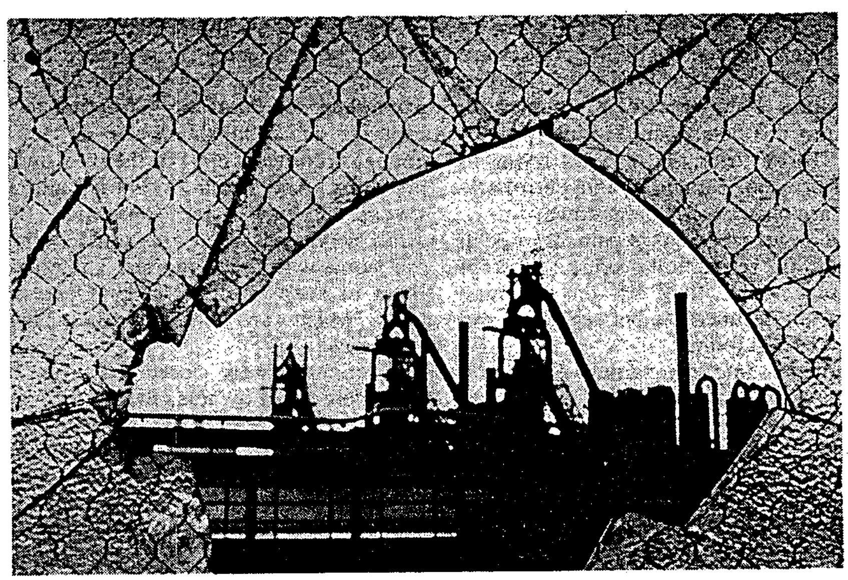
Shell reacted at first by trying to make too many guesses. It once used up to 20 "scenarios" for unpredictable things like oil prices. That proved useless. Its decisions are now made with more caution and with the help of no more than two to four "scenarios" about what may happen. Though the few guesses that are used by planners are checked to see how right or wrong they are, Shell's planners do not expect to get it all right. "We have abandoned any idea of forecast planning", says Mr de Wouters. "The risks have become higher and higher."

The company's planners try to anticipate three things: how much money should be invested and what sort of people the company should have; Shell's competition; and changes in the business climate (eg, oil prices, recessions and so forth). Instead of preparing plans covering periods one, five and 10 years ahead, Shell's long-term plans are now changed regularly and stretch only three to five years ahead. These strategic plans contain no figures.

In common with American companies disillusioned with long-term planning, Shell now worries more about how to put the ideas of its top managers into practice. "The plan is a failure if it is not supported by top management", says Mr de Wouters.

Planners at Dunlop, once Britain's biggest tyremaker, have similar doubts about the merits of planning. Mr Roy Marsh, Dunlop's planning director, says that "for several years, we have had a system of one-year budgeting and five-year strategic plans". But these strategies became "increasingly mechanistic and numerical—in effect, they had become extensions of the annual budget". Planners at Dunlop are now "much more open-ended" as the company tries to guess about growth, unemployment, swings in exchange rates and commodity prices and protectionism in the 1980s.

Of all these companies, however, Sainsbury has done best. Which proves that no planning is better than bad planning, but good planning is best of all.



Nobody planned for this

to get compensation estimated at DM1.3 billion. The new owners are offering only slightly more than the DM300m they paid for the original 49%. The case is going to arbitration. AEG says it is sure of victory.

Telecommunications was one of the few bits of AEG's operations that traded at or near a profit during the past two chaotic years. Before the crash, AEG tried to make telecommunications its main business instead of consumer appliances.

As operating losses increased from DM430m in 1981 to DM930m in 1982, however, AEG had to sell its best assets to raise cash to keep going. When AEG sold 49% of ATN, it kept control in the hope of forming a new group around ATN, including AEG's loss-making typewriter subsidiary, Olympia (in which Bosch also took a 49% stake).

When AEG went into receivership, Bosch and the other minority partners in ATN came out on top. The loss of ATN left the stricken AEG without its best business and a new core for the group. Yet AEG still controls Olympia and must absorb all its losses. Bosch has already written off its 49% stake in Olympia in its 1981 accounts. Some people at AEG describe their suit against Bosch et al as a claim for "damages", not just compensation.

Mr Heinz Dürr, AEG's chairman, is slowly patching up what is left. He has halted distress sales of the company's products. Discounts on AEG appliances are smaller, and Mr Dürr says that he would rather lose orders for capital goods than make them at a loss.

A majority stake in AEG's biggest loss-maker in 1982, the video and audio business of Telefunken Fernseh und Rundfunk, has been sold to Thomson-Brandt of France, which is still buying up businesses despite its own losses. AEG effectively paid Thomson-Brandt about DM150m to be rid of Telefunken. Olympia is closing two of its four factories—though it will keep open a manual typewriter factory in Mexico which lost heavily because of Mexico's devaluation last year—and may reduce its operating losses from DM200m in 1982 to perhaps DM50m this year.

European refining

Downstream without a paddle

Oil companies are holding a spring sale of their loss-making European refining and marketing operations. Socal has put its European network on the block. Amoco is negotiating the sale of its Italian subsidiary. And Gulf, following the sale of its Swiss, Benelux, Swedish and Danish operations, is looking for a buyer for its remaining holdings in Britain and Italy.

For all three companies, the prospects for Europe's downstream oil industry look bleak. Demand is falling, losses are heavy and no upturn is in sight. Finding companies bold (reckless?) enough to buy into this beleaguered industry is not easy. Those firms that are not trying to sell European refineries and petrol stations are busy closing them down.

Refineries are the real pain. European demand for refined oil products has kept dropping since 1979. In the common market, it declined 7% between 1981 and 1982 to 424m tonnes.

Though some companies—Shell and British Petroleum among them—might want to buy more petrol stations to help keep their own refineries working harder, companies trying to sell their downstream operations want to get rid of their refineries as well. Only the Arabs have so far been willing to buy refineries.

Kuwait Petroleum got two refineries when it purchased Gulf's Benelux and Scandinavian assets. It is pondering buying more. It has talked to Gulf about its British refinery and petrol stations, and also to Socal, which has five refineries and 4,700 petrol stations on offer. Two private Saudi companies—First Arabian Corporation and Arabian Sea First—are front-runners in the negotiations for Amoco Italia, which has a refinery and 1,100 petrol stations.

Governments worry that the Arabs might close down the refineries they are buying because they do not need more refining capacity. Kuwait Petroleum is expanding its domestic refineries to a capacity of 750,000 barrels a day—enough to process most of the oil Kuwait produces. And Saudi Arabia is building several big new export refineries. But Arab producers want the retail outlets that come with the refineries. These help them to keep ahead of other Opec nations which are building their own refineries.

If refineries were closed in Europe by their new Arab owners, the oil industry would applaud. European oil men have at last recognised that they must rationalise their downstream operations. They worry that it will not happen fast enough.

With hindsight, some oil company planners now admit they should have started to scrap refining capacity in 1978. All the problems now bugging the industry had emerged by then. There were too many refineries. Companies whose oil reserves had been nationalised knew that they now had to make money on refining instead or get out of the business. And the shift in demand from fuel oil to cheaper forms of energy meant that different products had to be refined from crude oil.

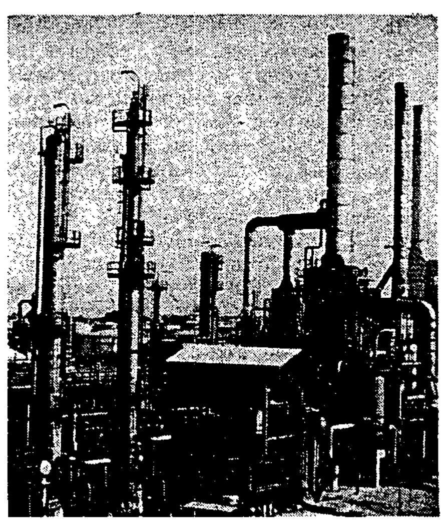
But oil companies could not believe at the end of the 1970s that the slump in demand would last so long. Now they can. Forecasters reckon demand for petroleum products will probably decline until at least 1990 as industry continues to switch away from fuel oil.

Even so, companies are reacting too slowly to the contraction of the Europear refining industry. Since 1980, BP ha reduced its European refining capacity by about 30%, Shell by 19%, Mobil by 16%, Exxon by 11%, Texaco by 8% and the rest of the industry by about 9%. Y refineries are still working at below 60 of capacity. The consultancy firm Pet leum Economics believes that oil c panies will get rid of another 11% capacity by the end of 1985, but that wil still leave too much. Imports will add to the problem.

Private oil companies put much of the blame for this slow adjustment on their government-owned rivals, particularly in Italy, whose big public sector has also helped to scupper plans to shrink Europe's steel and chemical industries. ENI has bloated Italy's excess capacity in refining by buying up refineries which nearly went bust when the country's drive to become a big export refinery centre in the Mediterranean went wrong.

French oil companies have also lagged behind. But both countries now appear to be cutting back. ENI has made no effort to buy Amoco's local subsidiary, even though Amoco promised to close its refinery if nobody bought it.

Cutting capacity will not be enough to



Scrap metal